

# ASSOCIATION OF GLOBAL CUSTODIANS

## Communication of the Association of Global Custodian's Asia Focus Committee<sup>1</sup>

28 June 2023,

The Honourable Mrs. Vu Thi Chan Phuong  
Chairwoman, State Securities Commission of Vietnam (SSC)

The Honourable Mr. Nguyen Son,  
Chairman, Vietnam Securities Depository (VSD)

**(Sent by email to:)** [vuchanphuong@ssc.gov.vn](mailto:vuchanphuong@ssc.gov.vn); [sonnguyen@vsd.vn](mailto:sonnguyen@vsd.vn);

Dear Chairlady Vu and Chairman Nguyen,

### **AGC member banks' concerns regarding the implementation of the central counterparty clearing house (CCP) in Vietnam**

At a recent meeting of Association of Global Custodians<sup>2</sup> (AGC) Asia Focus Committee, an update was given on the CCP project being undertaken in Vietnam. The implementation of this project is fully supported by AGC member banks and their foreign institutional investor (FII) clients investing in the Vietnam market. The introduction of a CCP structure that aligns with international best practices, supported through efficient operating systems, has the potential to significantly reduce settlement risk in the market. This change would enhance the market's reputation with investors and index providers globally. However, the AGC has some ongoing, serious concerns which were previously advised to the SSC, regarding the intended structure of the CCP and IT system architecture.

We would like to bring to your attention that the scope of services that Custodian Banks (CBs) will provide in settlement and clearing activities under the current envisioned CCP model, either as a Depository Member (DM) or as a Direct Clearing Member (CM), is still undecided and subject to on-going discussion. Key issues for consideration are:

- Under current State Bank of Vietnam (SBV) regulations, CBs are not permitted to undertake the envisioned clearing services required of a CM.

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<sup>1</sup> Mr. Rafizain Rafii, Chairman, The Association of Global Custodians, Asia Focus Committee, c/o Northern Trust, One George Street, #12-06, Singapore 049145

<sup>2</sup> The Association of Global Custodians is an informal group of 12 financial institutions that provide securities safekeeping services and asset-servicing functions to primarily institutional cross-border investors worldwide. As a non-partisan advocacy organization, the Association represents members' common interests on regulatory and market structure matters through comment letters, white papers and interaction with legislative and regulatory authorities and financial industry organizations around the globe. The members of the Association of Global Custodians are: BNP Paribas; BNY Mellon; Brown Brothers Harriman & Co; Citibank, N.A.; Deutsche Bank; HSBC Securities Services; JP Morgan; Northern Trust; RBC Investor & Treasury Services; Skandinaviska Enskilda Banken; Standard Chartered Bank; and State Street Bank and Trust Company.

- Concerns of foreign institutional investors on DVP settlement and resultant asset safety if CBs are to be DMs, as usually only broker-dealers and other trading parties which are licensed exchange members are DCMs.
- VSD system changes and the cooperation of local brokers with the model are essential to alleviate such key concerns, but to date the required changes and cooperation sought have yet to be committed.

The AGC outlined the above concerns in our letter to the SSC dated 12 October 2020, a copy of which is enclosed for your ready reference. Reference was made in that letter to one sent to the SSC by the Asia Securities Industry & Financial Markets Association (ASIFMA) dated 18 September to which AGC member banks contributed.

ASIFMA further communicated to the SSC in May 2022 and February 2023, certain proposed solutions, to which AGC member contributed, together with a supporting matrix which contained relevant data on market practices elsewhere in Asia.

As matters currently stand AGC member banks have been unable to identify feasible solutions for themselves and their clients to participate successfully in the CCP and related market developments, as we are relying on the SSC and the VSD taking key decisions on changes the AGC and ASIFMA have proposed.

It is only upon a final confirmation of the CCP model that CBs and their clients can commence the required preparation to support this change, which will require at least 12 months to complete. Preparations include: obtaining the necessary licensing; updating procedures; conducting system development and testing; completion of legally-binding service level agreements with clients, service providers and other counterparties, etc. With much still undecided, AGC member banks and their clients have serious concerns on the feasibility of a hard launch date of 1 January 2024 being imposed on all market participants and the ability for all parties to be ready. A rushed implementation could have unintended consequences.

To ensure all market participants are ready to participate in a successful launch of the CCP, we strongly recommend a deferral on the decision regarding the CCP implementation date until a feasible model and operating solution is concluded which supports the goal of reducing risk in the settlement process.

Thank you for accepting this submission. We hope that an urgent, resolution meeting of the SSC, VSD, market participants and industry forums can take place as-soon-as-possible.

Please feel free to contact either the undersigned or our Chairman, Mr. Rafizain Rafii, should either the SSC or the VSD have any questions

Yours sincerely,



Robert Edwards, (as attorney in fact)  
For and on behalf of Rafizain Rafii,  
Chairman, Asia Focus Committee,  
The Association of Global Custodians

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